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SUBJECT: THE DEPUTY SECRETARY'S MAY 19 MEETING WITH IRAQI
DEPUTY PRIME MINISTER CHALABI

Classified By: Charge d'Affaires James F. Jeffrey for reasons
1.4 (b) and (d)

1. (U) PARTICIPANTS:

U.S.

DEPUTY SECRETARY ZOELICK
CHARGE D'AFFAIRES JAMES JEFFREY
DCM DAVID SATTERFIELD
AMBASSADOR JONES
CHRISTINE DAVIES
ROBERT WALLER
ADAM ERELI
SCOTT CARPENTER

IRAQ

DEPUTY PRIME MINISTER AHMED CHALABI

2. (S/NF) SUMMARY: In a May 19 meeting with the Deputy Secretary, Deputy Prime Minister Chalabi noted limited

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progress on the constitution and voiced concern about meeting the August 15 deadline and including Sunnis in a credible way. He also opined that sectarian violence is a more serious problem than is portrayed publicly and said he has met Sunni leaders to discuss jointly condemning sectarian strife. Chalabi noted Iraq also faces serious economic challenges. Chalabi agreed with the Deputy Secretary on the need to adjust pricing structures, but noted legislative opposition to the idea. Other problems include bureaucrats who are reverting to socialist tendencies and the undeveloped agricultural and banking sectors. END SUMMARY.

CONCERNED ABOUT CONSTITUTION AND SECTARIAN VIOLENCE

3. (S/NF) In response to the Deputy Secretary's questions on Iraq's political process, DPM Chalabi said he feared Iraqis were making little progress on the constitution. Sunni participation was weak and there was no agreement on a mechanism for their credible inclusion. Chalabi asserted he is pushing the United Iraqi Alliance (UIA) to add 14-15 members to the existing 55-member constitutional committee of the Transitional National Assembly (TNA). PM Ja'fari is on board and the Sadrists could be persuaded as well, however SCIRI leader 'Abd al Aziz al-Hakim remains opposed to the idea. Sunni Deputy Prime Minister 'Abid Mutlak al-Jabburi has credible names to include on the committee and Chalabi claimed he is also working to persuade the Iraqi Islamic Party and the Muslim Ulama Council to sign on to the expanded committee. (Note: Leaders of the Sunni Iraqi Islamic Party have separately told Poloffs they support the idea. End note.) Chalabi mentioned he will see Muslim Ulama Council spokesman Haet al-Dhari next week, with whom Chalabi said he has personal rapport because of past political connections between al-Dhari's father and Chalabi's brother.

4. (S/NF) The Deputy Secretary stressed the importance of making the August 15 constitution deadline to avoid giving opportunities to terrorists to exploit. He asked whether the TNA was making progress to meet the deadline. Chalabi replied that he is concerned about the slow speed - the process needs organization and a plan, but the committee had no "movers" to set action plans. Using the TAL as a basis would accelerate the process somewhat, although he believes the Kurds' internal squabbling is also delaying movement.

5. (S/NF) On the Deputy Secretary's question about sectarian violence, Chalabi said it was a very serious problem that was under-reported. Chalabi claimed approximately 15-20 people are killed each day; Iraqis are moving out of their neighborhoods to escape this increasing violence. Chalabi believes terrorists are inciting sectarian violence to de-legitimize the government and derail the democratic process.

6. (S/NF) Controlling entrances to Baghdad would help to contain infiltrating terrorists, suggested Chalabi.

Extremists are killing Shia on their way to Karbala and Najaf; as payback, the Shia are killing Sunnis in Baghdad. (NOTE: Charge pointed out the Ministry of Interior has a new plan to patrol the 23 entrances to Baghdad; however, the plan does not extend to Babil province, which lies between the Shia heartland and Baghdad. END NOTE) Chalabi opined that encouraging citizens to use the highway rather than the smaller, more dangerous roads would also diminish the number of incidents.

17. (S/NF) Chalabi underscored the importance of getting Sunni and Shia leaders to condemn the sectarian strife. He is holding discussions with Sunni Endowment leader Adnan al-Dulaymi and the Iraqi Islamic Party on issuing a joint statement denouncing sectarian strife. Chalabi is not sure the Muslim Ulama Council (MUC) will join the initiative given their recent public statements that have heightened tensions. Chalabi highlighted the problem of Sunni leadership. His efforts to date have been focused on bringing Sunni religious and tribal leaders into the process, but Chalabi noted the bulk of Sunnis are not in these categories. There needs to be outreach to the professional and technocratic cadre. Only one Sunni minister, the Minister of Women's Affairs, Azhar Abd al Karim al-Shaykhli, fits into this category, opined Chalabi.

18. (S/NF) Iraqis would soon find the Shia/Sunni divide less important than the division between Arabs and Kurds, predicted Chalabi. Mosul is "explosive" due to Kurdish encroachment, and Arabs also fear the Kurds are taking over the city of Sinjar in Ninewa province. Chalabi noted that a key task is to instill in Kurds the notion they are part of Iraq, while restraining them from assuming disproportionate power.

ECONOMIC PRIORITIES: PROVIDE SERVICES, UP REVENUES

19. (S/NF) Chalabi remarked on Iraq's abysmal economic situation, with \$36 billion spent since the fall of the regime resulting in no improvements. He said problems are clearly not fixed by "throwing money at them," and the corruption problem has exacerbated conditions. (NOTE: Chalabi noted the Board of Supreme Audit recently released a report on corruption within the Defense Ministry. END NOTE)

110. (S/NF) Chalabi said government priorities should be to provide services: electricity, sewage, and water. For electricity, the current goal is four hours on, one hour off. Iraq has the reserve capacity of 11,000 megawatts, but it currently generates only 4,200 megawatts. Two years have failed to improve this output, complained Chalabi. As a short-term solution, the government has focused on using expensive fuel. Currently Iraq is importing 4 million liters per day of diesel fuel costing \$150 million/month to power generators.

111. (S/NF) The Deputy Secretary suggested that Iraq could harness the estimated \$5 billion of natural gas currently flared to power electricity generators rather than crude oil - and thus free up oil for export. Fuel pricing structures need to be adjusted, added the Deputy Secretary. Chalabi agreed, noting that gasoline is basically free (50 dinar or 3 cents per liter) and diesel is even cheaper than gasoline. Electricity is also free since the collection process is more expensive than the governmental income that would be gained by collecting tariffs, complained Chalabi. One idea is to charge citizens for extra usage after a minimum amount. Chalabi said he and the Finance Minister support adjusting pricing structures, but the UIA remains reluctant. He suggested the USG could help educate UIA parliamentarians by leading a seminar for the TNA on economic incentives. Chalabi would also like to cut food subsidies, at least partially. Ending subsidies for soap and beans, for example, would save \$500 million per year.

112. (S/NF) Iraq's second economic priority should be to increase revenues through oil exports, but Iraq suffers from both production and export problems, noted Chalabi. Iraq only exports 1.4 million barrels per day. Iraq could increase exports from Kirkuk, but would need security for the pipeline. For example, the oil pipeline through Mosul is under threat, and it would require 18 fully trained and equipped battalions to protect it. Iraq loses \$600 million a month because the northern export lines are unprotected and not functioning. In addition, Iraq's oil refining capability is half what it needs to be; the country needs 20 million liters gas per day and must import 10-11 million liters per day.

113. (S/NF) The country's economic problems are exacerbated by an increasing tendency (on the part of bureaucrats rather than ministers) to revert to socialist practices, continued Chalabi. Because of their experience, the bureaucrats' default response defies to enact protectionist tariffs and to restrict the percentage of foreign investment. Not one

economic activity in Iraq is profitable, including agriculture, which is heavily subsidized, yet their inclination is to increase subsidies to address the problem, complained Chalabi.

ADDITIONAL SECTORS: AGRICULTURE, BANKS, JOB CREATION

14. (S/NF) Chalabi noted two issues affecting the agricultural sector: land ownership and irrigation. Iraq needs to farm large tracts of land to have a profitable agro-sector. However, there is still a law preventing private land ownership of more than 800 hectares. Modern irrigation techniques are needed, but such improvements are capital intensive. Banks present a unique challenge with less than 500 operating branches in Iraq -- one branch per 40,000 Iraqis.

15. (S/NF) The Deputy Secretary asked about the usefulness of micro-credit loan programs in Iraq, to which Chalabi responded that such a program would help greatly since it "is impossible to get loans now." Chalabi said agriculture and services were key elements to creating jobs, much more than manufacturing. Expanding housing would also create immediate jobs. Most land belongs to the government, which it could section off for residential areas that would create jobs in construction. Further, increasing home ownership would contribute to political stability. Chalabi also asked to increase the number of scholarships to the U.S. and subscriptions to useful periodicals.

16. (U) The Deputy Secretary's office cleared on this cable.

17. (U) Minimize considered for REOs Basrah, Hillah, Kirkuk, and Mosul.
Jeffrey